How what you know *can* hurt you

IT'S A SCENARIO THAT YOU'VE CONSIDERED but think will never happen to you. Your competitor, Ajax Power Modules, announces a new product that is a clone of one of your company's recently introduced power supplies. The big questions are how did it happen and what you should do now. This family of products requires special materials and processes that only your employees had access to. Making some inquiries rises to the top of your priority list.

The next day, one of your reps confirms your worst fears. Jim, a product designer who left your company 18 months ago, now works at Ajax. He originally left your company to start his own design company but ultimately accepted a position at Ajax. Your discussion at Jim's exit interview about not using your company's trade secrets obviously fell on deaf ears. Now, your competitor has inside knowledge of your products, processes, material sources, and who knows what else.

This article is the first in a series on IP and related topics by Randy Ford.

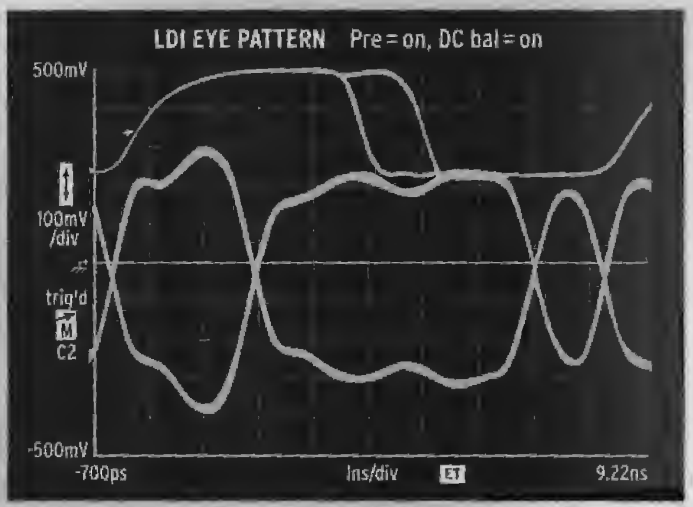
If this kind of incident hasn't happened at your company, chances are that it could happen easily—unless you get serious about protecting your company's intellectual property (IP). Tragically, hundreds of companies face this problem every year and are powerless to prevent it. Dan Noblitt, IP attorney for the Phoenix law firm of Snell and Wilmer, says these incidents are becoming increasingly common. Noblitt asserts that many companies unwittingly transfer key technology to rival companies because they are ignorant about how to safeguard their IP. "It's often tough to convince clients that they need to protect their IP with the same diligence they use to protect other assets," Noblitt says. "A client that will purchase insurance to protect equipment and receivables will routinely ignore protecting their IP until he has a problem."

According to the American Society of Industrial Security, this type of unauthorized technology transfer amounts to an estimated $250 billion annually, and this figure is growing (**Reference 1**). This amount of lost product revenue is amazing, profiting companies that have no legal right to use the IP that generates such large sales.

DEFINING IP

"IP" is any special knowledge that you can apply to give your company a competitive advantage. The types of special know-how that the law protects fall into four categories: patents, trademarks, copyrights, and trade secrets. Legal protection of these four forms of IP comes from a body of laws that confers ownership of this special knowledge to the originator. Each form of IP has to pass tests for such requirements as novelty, nonobviousness, and proof of originality. A brief description of each type of IP follows. Understanding how to protect your IP begins with the knowledge of each form and of how one form differs from another.

3.3V 24-Bit Dual Pixel 112MHz LVDS Display Interface



PANEL BANDWIDTH DEMAND, OPEN LDI BANDWIDTH = 5.38Gbps

Panel	Resolution	CLK	RGB	Bandwidth
XGA	1024 x 768	65	8	1.56
SXGA	1280 x 1024	93/112	8	2.23/2.69
SXGAW	1600 x 1024	115	8	2.76
UXGA	1600 x 1200	133/160	8	3.29/3.84
HDTV	1920 x 1080	143	8	3.43
UXGAW	1900 x 1200	158	8	3.79
QXGA	2048 x 1536	211	8	5.06

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Patents are a means to protect a new and useful technological invention from unauthorized use. Several types of patents are available, depending on the nature of the innovation. Traditionally, these types include utility, plant, drug, and design patents. Recent court rulings have enabled software and business methods to also become eligible for patents. In 1998, the US government issued 154,000 patents. As in most years, the majority of these patents were utility patents.

Regardless of its type, a patent is essentially an agreement between an inventor and the federal government. In exchange for disclosing the invention to the public, the government permits the inventor exclusive use of the invention for at least 20 years from the date of filing, depending on the type of patent that the government issues.

A patent protects your invention from unauthorized infringement only if you carry the patent process through to completion and receive the issued patent. Patents that you apply for but do not receive provide no protection. Also, a patent provides protection only in the country of issue. A person is free to produce and sell your US-patented invention in another country, but he may not sell it in the United States without some form of permission from you. Inventors seeking to protect their invention in foreign countries must acquire patents in those countries as well.

The law governing patent protection is Title 35 of the US Code. There are no state patent programs because patents exist only at the federal level. The Patent and Trademark Office in Washington reviews patent applications and issues patents. Title 35 derives its authority from Article I of the US Constitution and is embodied in its latest form in the Patent Act of 1994.

A copyright protects an original work of authorship only after the holder reduces the work to a tangible form of expression, such as printed media, audio recording, or video. The copyright gives the holder the exclusive right to control duplication and distribution of the work except when the work is in "fair use." In fair-use cases, a user can reproduce the work for educational or critical review, but he must give a citation. The user need not secure permission from the copyright holder, but he must credit the originator.

The term of a copyright ranges from 50 to 100 years, depending on conditions of the work's creation. Title 17 of the US Code defines copyright laws. Like patents, copyrights are available only on a federal basis from the US Copyright Office in Washington. This office handles all administrative aspects. In 1996, the government incorporated major changes in Title 17 into the Copyright Act. These changes have significantly strengthened the copyright holder's protection. Now, a work of authorship is under copyright protection from the moment the holder creates it. No longer does the copyright holder forfeit any rights simply by failing to file a federal registration form or failing to use the copyright symbol (©). So why register a copyright? In simple terms, registering your work with the US Copyright Office provides several benefits that become very important if a dispute arises. Registering your work establishes the date of creation, which is helpful if action against infringement becomes necessary. Registering a work also means the penalties and financial liabilities for infringers who are found guilty may also be significantly higher.

TRADE SECRETS ARE PERHAPS THE MOST COMMON TYPE OF IP, BUT THEY ARE THE MOST DIFFICULT TO MANAGE.

A copyright is a useful tool to control distribution of your work, but it is important to understand that copyrights have two limitations. First, a copyright covers only the tangible form of expression, not the underlying concept or idea. A songwriter who writes a song about using flowers to win someone's heart, for example, can copyright both the printed sheet music and a recording of the song. He can not copyright the *idea* of giving someone flowers. Likewise, an author could write an article or book for lovers about giving flowers. That work could prevent others from *publishing* a substantially similar work but not from using the idea. It is wise to copyright a work in all of its likely forms.

The second limitation is more specialized. A copyright does not establish ownership rights to a slogan, name, or short phrase and prevent unauthorized use. These forms of expression require the protection that a trademark affords.

Trademarks are the form of IP that is most familiar to people. Trademarks are words, phrases, or symbols that a company uses to identify or distinguish the company or its products. Familiar trademarks abound and include such names as Kodak, Xerox, and Coca-Cola. If a company uses a short, specific phrase to describe a service, the phrase is called a service mark, but the same rules apply. An example is the Avis car-rental company's service-mark phrase, "We try harder."

You do not have to register a trademark for it to be protected. However, unregistered trademarks, or "common-law trademarks," confer only minimal rights to the owner, and protection is limited to the owner's immediate geographic area. Registering a trademark affords a much stronger level of protection, including much stronger penalties and fines against infringers. Trademarks differ from patents and copyrights in that you can register a trademark both at the state level, for use within that state, or at the federal level, for national protection. Users often register at the state level first, then register at the federal level when market opportunities require them to. Dual registration allows a trademark owner to bring suit for infringement in either state or federal court as the situation warrants.

Federal trademark law is embodied in the Lanham Act, last amended in 1994. Federal trademarks granted under the Lanham Act do not have an expiration date. They are registered with the Patent and Trademark Office in the same way as a patent, but trademark ownership remains in effect as long as the holder continues to pay the periodic maintenance fees. The terms and coverage of trademarks granted under state laws vary from state to state.

Trade secrets are perhaps the most common type of IP, but they are the most difficult to manage. A trade secret is confidential information that provides a competitive advantage over those who do not have it. Protecting an idea as a trade secret requires a significant number of active steps by the originator, because no formal trade-secret registration exists. A trade secret is also nonexclusive, which

means that more than one company can use it, provided that each company independently developed the idea. The Uniform Trade Secrets Act (UTSA) provides guidance to individual states to ensure consistent laws between states. More than 40 states have adopted a similar version of the UTSA but with minor revisions, so trade-secret laws vary by state. Until recently, only state laws protected trade secrets against unlawful taking and provided redress only in the form of monetary damages. However, the Economic Espionage Act of 1996 elevated trade-secret theft to a federal crime. Although the standards of proof are higher under the federal statute, the penalties are higher, too. In addition to monetary damages, penalties may include a fine and imprisonment.

Five general requirements qualify information as a trade secret:

- Subject matter—The UTSA defines proper trade-secret subject matter as "including a formula, pattern, compilation, program, device, method, technique, or process." Practical examples include customer lists, drawings, software, purchasing data, and similar subjects. It is usually information that one company knows, and company outsiders who can obtain economic value from it cannot readily or easily reproduce it.
- Secrecy—You can maintain a trade secret only if you take steps to keep it secret. For information to qualify as secret, you must identify the information to employees as confidential and use affirmative procedures to maintain its confidential status. Perhaps the best known example of a successful trade secret is the formula for Coca-Cola. Coca-Cola has closely guarded the formula for more than 100 years, and the formula is still secret at this writing.
- Novelty—Usually, novelty requires only that the subject of the trade secret must not be readily available in the industry.
- Value—There must be a specific economic value that another entity could gain by using the trade secret if the entity knew it.
- Affirmative protection—Most companies have difficulty meeting this requirement. The UTSA and state courts require that a company take reasonable efforts to maintain the secrecy of the trade secret. In other words, if your company does not attempt to keep the idea secret, the courts will not consider it a trade secret. Good examples of affirmative steps include written agreements with employees prohibiting disclosure, restriction of access to facilities and information, marking confidential information as company proprietary, and using nondisclosure agreements for any outside entities with whom you need to share confidential information.

After viewing the steps that protecting a trade secret requires, why would anyone go to the trouble? There are several good reasons. First, a trade secret does not have an expiration date, so it is available to the originator indefinitely. If Coca-Cola had patented the formula for Coke, there would have likely been many other producers right after the patent expired. Also, in environments of rapid process- or product-technology change, trade-secret status may be the best way to protect an idea until a successor makes the idea obsolete.

IP RIGHTS ARE *AFFIRMATIVE* RIGHTS, BUT TANGIBLE-PROPERTY RIGHTS ARE GENERALLY *STATUTORY* RIGHTS.

A final reason to protect information as a trade secret is that the information may not qualify for protection anywhere else. A customer list, for example, is not patentable, and it does not meet the requirements of a trademark. A copyright isn't practical because the list may change on a daily basis. But because the list is certainly valuable to your business, you can at least protect it as a trade secret if the other conditions apply.

In most ways, IP and tangible-property ownership rights are identical. You can buy, sell, and appraise both IP and tangible property, as well as exchange it for something else or give it away. The owner of either form of property can also legally prevent anyone else from using it without his permission. You must note one important distinction: IP rights are *affirmative* rights, but tangible-property rights are generally *statutory* rights. "Affirmative" means that the IP owner is responsible for initiating action in response to infringement. If you catch someone violating your patent or copyright, you must take steps to initiate action against the infringer. In contrast, the law protects tangible property without requiring the active involvement of the property owner. In the earlier example, your former employee, Jim, stole your power-supply design and revealed it to Ajax in clear violation of his employment agreement. You have to initiate proceedings to recover damages from his unauthorized disclosure. However, if Jim stole your car, you would need only to report it, and he could be arrested and prosecuted by application of statutory property rights.

PROTECTING IP IS YOUR RESPONSIBILITY

You cannot overstate the value of IP to a company in today's economy. There is no question that IP helps increase a company's wealth even though it rarely shows up on a company's balance sheet. IP realizes its value every time a company uses it to generate income from sales of products and services in which the company applies it. In addition, IP generates revenue from the sale of rights for others to use it. Examples of licensing rights abound. Wang Laboratories, for example, generates more than $60 million per year from licensing its patent on the single in-line memory module. Texas Instruments has an IP portfolio that it uses to collect more than $500 million annually in license fees alone. Whether you choose to license your IP or simply use it to secure a strong market position, one thing is certain: IP can instantly become worthless unless you take the proper steps to protect it.

REFERENCE

1. Radcliff, Deborah, "Invisible loot—protecting against high-tech business espionage," *Industry Week*, Nov 2, 1998, pg 22.

AUTHOR'S BIOGRAPHY

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***Note:** This information is provided to help you understand issues surrounding IP protection and management. It is not intended to substitute for legal counsel. Please consult with a competent IP attorney if you have specific legal questions.*